

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4645-02
Bill No.: HCS for HB 1463
Subject: Taxation and Revenue - Sales and Use
Type: Original
Date: February 15, 2016

Bill Summary: This proposal modifies provisions relating to sales tax on admission or fees to places of amusement and entertainment.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
General Revenue	(\$22,200,000)	(\$26,700,000)	(\$26,700,000)
Total Estimated Net Effect on General Revenue	(\$22,200,000)	(\$26,700,000)	(\$26,700,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
School District Trust	(\$7,400,000)	(\$8,900,000)	(\$8,900,000)
Conservation Commission	(\$900,000)	(\$1,000,000)	(\$1,000,000)
Park, Soil and Water	(\$700,000)	(\$900,000)	(\$900,000)
Total Estimated Net Effect on <u>Other</u> State Funds	(\$9,000,000)	(\$10,800,000)	(\$10,800,000)

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 10 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on FTE	0	0	0

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Local Government	(\$31,200,000)	(\$37,500,000)	(\$37,500,000)

FISCAL ANALYSIS

ASSUMPTION

Section 144.010, 144.018, and 144.020, RSMo. - Sales Tax on Admissions:

Changes to the provisions in this legislation would specify which places of amusement, entertainment, recreation, games, and athletic events must collect sales tax. The proposal would require sales tax to be charged and remitted for admission charges to "sporting events, dance performances, theater performances, orchestra, concerts, and other performing arts productions, and amounts paid for admission to racetracks, arcades, theme and amusement parks, water parks, circuses, carnivals, festivals, air shows, museums, marinas, motion picture theaters, and other commercial attractions." Other charges or fees to or in places of amusement, entertainment and recreation, games and athletic events would not be taxable, and charges for a right of first refusal to purchase tickets would be specifically exempted from sales tax.

Officials from the **Office of Administration - Division of Budget and Planning (B&P)** assume this proposal would change the current sales tax on recreation to a sales tax on admission charges. BAP officials noted that the Department of Revenue (DOR) reports for 2014 indicated taxable sales from various recreation industries as shown below.

<u>Industry</u>	<u>Taxable Sales</u>
Dance Halls, Studios, and Schools	\$6,160,860
Producers, Orchestras, Entertainers	\$43,417,688
Bowling and Billiard Establishments	\$65,398,589
Commercial Sports	\$383,230,473
Riverboats - No Gambling	\$133,433,551
Miscellaneous Amusement and Recreation	\$693,771,172
Camps and Trailer Parks	\$77,493,042
Motion Picture Theaters	\$240,295,989
Museums, Art Galleries, Botanical Gardens	\$6,495,703
Total	<u>\$1,649,697,067</u>

B&P officials estimated these sales generated \$69.7 million in state sales taxes. B&P further estimate that, on average, 46% of these sales are admission charges that would remain taxable under this proposal, or \$761.3 million. This would generate \$32.2 million in state sales taxes, a reduction of \$37.5 million annually.

ASSUMPTION (continued)

Oversight notes the B&P estimate assumes a reduction in the taxable sales base for recreational businesses from \$1,650,000,000 to \$761,000,000 (\$1,650,000,000 - \$761,000,000) = \$889,000,000. Oversight assumes the B&P calculations provide the best available estimate and has calculated impact of an estimated \$889 million (rounded) reduction in taxable sales, as shown in the table below, and will include that estimated impact in this fiscal note.

Fund or entity	Sales Tax Rate	Revenue Reduction for ten months FY 2017	Revenue reduction for full year
General Revenue	3.000%	\$22,200,000	\$26,700,000
School District Trust	1.000%	\$7,400,000	\$8,900,000
Conservation Commission	0.125%	\$900,000	\$1,000,000
Parks, Soil and Water	0.100%	\$700,000	\$900,000
Local Governments *	3.880%	\$31,200,000	\$37,500,000
* The local government sales tax rate is an average calculated by Oversight based on reported collections by the Department of Revenue.			

Oversight notes the School District Trust Fund sales tax revenues are distributed, along with other revenues in the fund, to local school districts but will not include those transfers in this fiscal note. In addition, the reduction in local government sales tax revenues from this proposal would result in a reduction in the one percent collection charges withheld by the Department of Revenue and deposited in the General Revenue Fund, and Oversight will not include that impact in this fiscal note.

In response to a previous version, officials from the **Department of Revenue (DOR)** noted this proposal would change the existing tax on recreation to a tax on admissions. Additionally, these provisions would exempt from sales tax the amount paid for the first opportunity to purchase or decline tickets for admission to events.

ASSUMPTION (continued)

DOR officials estimated these exemptions could reduce Total State Revenue as much as \$37 million and deferred to the Office of Administration - Division of Budget and Planning for additional information on this exemption.

DOR officials assumed the Department would have to change regulations and practices to implement the changes in the proposed legislation, and DOR officials expect increased litigation until the new language is judicially construed.

DOR officials did not provide an estimate of costs for these changes and **Oversight** assumes DOR could absorb those costs.

Administrative Impact

DOR officials assumed Collections and Tax Assistance (CATA) would have additional customer contacts but would handle these contacts with current staff. DOR officials also assume some current registered businesses would no longer be required to collect and remit sales tax. Finally, Sales Tax staff may have some overtime to adjust procedures and documents posted on the DOR website.

Oversight assumes DOR could absorb the cost to implement this proposal with existing resources.

In response to a previous version, officials from the **Office of the Secretary of State (SOS)** assumed many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the Secretary of State's Office for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

ASSUMPTION (continued)

In response to a previous version, officials from the **City of Kansas City** assumed this proposal would result in a reduction in sales tax revenue for their organization as follows:

FY 2017	\$266,667
FY 2018 and FY 2019	\$400,000

In response to a previous version, officials from **Callaway County** assumed this proposal would have little to no financial impact.

In response to a previous version, officials from **St. Louis County** assumed this proposal would lower their tax base but did not provide an estimate of the amount.

In response to a previous version, officials from **Cole County** indicated this proposal would have a negative fiscal impact but did not provide an estimate of the amount.

In response to a previous version, officials from the **Department of Conservation (MDC)** assumed this proposal would have an unknown negative fiscal impact to their organization, but greater than \$100,000. MDC officials deferred to the Department of Revenue for an estimate of the anticipated fiscal impact for this proposal.

In response to a previous version, officials from the **Department of Natural Resources (DNR)** noted this proposal would create a new sales and use tax exemption, and deferred to the Department of Revenue and Office of Administration - Division of Budget and Planning for a more detailed account of the fiscal impact of this proposal.

In response to a previous version, officials from the, the **Joint Committee on Administrative Rules**, the **Callaway County**, the **Jackson County Election Board**, the **Platte County Board of Elections**, the **Mississippi County Recorder of Deeds**, and the **St. Louis County Directors of Elections** assumed this proposal would have no fiscal impact on their organizations.

ASSUMPTION (continued)

Not responding:

Officials from the following cities: Ashland, Belton, Bernie, Bonne Terre, Boonville, California, Cape Girardeau, Clayton, Columbia, Dardenne Prairie, Excelsior Springs, Florissant, Frontenac, Fulton, Gladstone, Grandview, Harrisonville, Independence, Joplin, Kearney, Knob Noster, Ladue, Lake Ozark, Lee Summit, Liberty, Louisiana, Maryland Heights, Maryville, Mexico, Monett, Neosho, O'Fallon, Pacific, Peculiar, Pineville, Popular Bluff, Raytown, Republic, Richmond, Rolla, Sedalia, Springfield, St. Charles, St. Louis, St. Robert, Sugar Creek, Sullivan, Warrensburg, Warrenton, Webb City, Weldon Spring and West Plains did not respond to our request for information.

Officials from the following counties: Andrew, Atchison, Audrain, Barry, Bollinger, Buchanan, Camden, Cape Girardeau, Carroll, Cass, Clay, Cooper, DeKalb, Dent, Franklin, Greene, Holt, Jackson, Jefferson, Johnson, Knox, Laclede, Lawrence, Lincoln, Marion, McDonald, Miller, Moniteau, Monroe, Montgomery, New Madrid, Nodaway, Ozark, Perry, Pettis, Phelps, Platte, Pulaski, Scott, Shelby, St. Charles, St. Francois, Taney, Warren, Wayne and Worth did not respond to our request for information.

Officials from the following schools: Blue Springs Public Schools, Branson Public Schools, Caruthersville School District, Cole R-I Schools, Columbia Public Schools, Everton R-III School District, Fair Grove Schools, Fulton Public School, Harrisonville School District, Independence Public Schools, Jefferson City Public Schools, Kansas City Public Schools, Kirksville Public Schools, Kirbyville R-VI Schools, Lee Summit Public Schools, Macon School, Malta Bend Schools, Mexico Public Schools, Monroe City R-I Schools, Nixa Public Schools, Parkway Public Schools, Pattonville Schools, Raymore-Peculiar R-III Schools, Raytown School District, Riverview Gardens School District, Sedalia School District, Sikeston Public Schools, Silex Public Schools, Special School District of St. Louis County, Spickard School District, Springfield School District, St Joseph School District, St Louis Public Schools, St. Charles Public Schools, Sullivan Public Schools, Warren County R-III School District and Waynesville Public School did not respond to our request for information.

<u>FISCAL IMPACT - State Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
GENERAL REVENUE FUND			
<u>Revenue Reduction: Sales tax exemption</u>	<u>(\$22,200,000)</u>	<u>(\$26,700,000)</u>	<u>(\$26,700,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>(\$22,200,000)</u>	<u>(\$26,700,000)</u>	<u>(\$26,700,000)</u>
SCHOOL DISTRICT TRUST FUND			
<u>Revenue Reduction: Sales tax exemption</u>	<u>(\$7,400,000)</u>	<u>(\$8,900,000)</u>	<u>(\$8,900,000)</u>
ESTIMATED NET EFFECT ON THE SCHOOL DISTRICT TRUST FUND	<u>(\$7,400,000)</u>	<u>(\$8,900,000)</u>	<u>(\$8,900,000)</u>
CONSERVATION COMMISSION FUND			
<u>Revenue Reduction: Sales tax exemption</u>	<u>(\$900,000)</u>	<u>(\$1,000,000)</u>	<u>(\$1,000,000)</u>
ESTIMATED NET EFFECT TO THE CONSERVATION COMMISSION FUND	<u>(\$900,000)</u>	<u>(\$1,000,000)</u>	<u>(\$1,000,000)</u>
PARKS, SOIL AND WATER FUND			
<u>Revenue Reduction: Sales tax exemption</u>	<u>(\$700,000)</u>	<u>(\$900,000)</u>	<u>(\$900,000)</u>
ESTIMATED NET EFFECT TO THE PARKS, SOIL AND WATER FUND	<u>(\$700,000)</u>	<u>(\$900,000)</u>	<u>(\$900,000)</u>

<u>FISCAL IMPACT - Local Government</u>	<u>FY 2017</u> <u>(10 Mo.)</u>	<u>FY 2018</u>	<u>FY 2019</u>
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LOCAL GOVERNMENTS

<u>Revenue Reduction: Sales tax exemption</u>	<u>(\$31,200,000)</u>	<u>(\$37,500,000)</u>	<u>(\$37,500,000)</u>
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ESTIMATED NET EFFECT TO LOCAL GOVERNMENTS	<u>(\$31,200,000)</u>	<u>(\$37,500,000)</u>	<u>(\$37,500,000)</u>
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FISCAL IMPACT - Small Business

This proposal would have a direct fiscal impact to small businesses which operate places of amusement, entertainment and recreation.

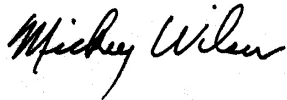
FISCAL DESCRIPTION

This proposal authorizes a state and local sales and use tax exemption for the amount paid that results in the right of first opportunity to purchase or decline tickets for admission to events but does not itself result in admission. Currently, there is a state and local sales and use tax on the sales of admission tickets, cash admissions, charges, and fees to or in places of amusement, entertainment, recreation, games, and athletic events. The proposal specifies the tax will only apply to sales of admission tickets and charges and fees for admission to view sporting events; dance performances; theater performances; orchestra, concerts, and other performing arts productions; and amounts paid for admission to racetracks, arcades, theme and amusement parks, water parks, circuses, carnivals, festivals, air shows, museums, marinas, motion picture theaters, go-karts, miniature golf, zip lines, individual stand-alone amusement rides, and other tourist excursions.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Office of Administration - Budget and Planning
Office of the Secretary of State
Joint Committee on Administrative Rules
Missouri Department of Conservation
Department of Natural Resources
City of Kansas City
Callaway County
St. Louis County
Cole County
Jackson County Election Board
Platte County Board of Elections
Mississippi County Recorder of Deeds
St. Louis County Directors of Elections



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February 15, 2016

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